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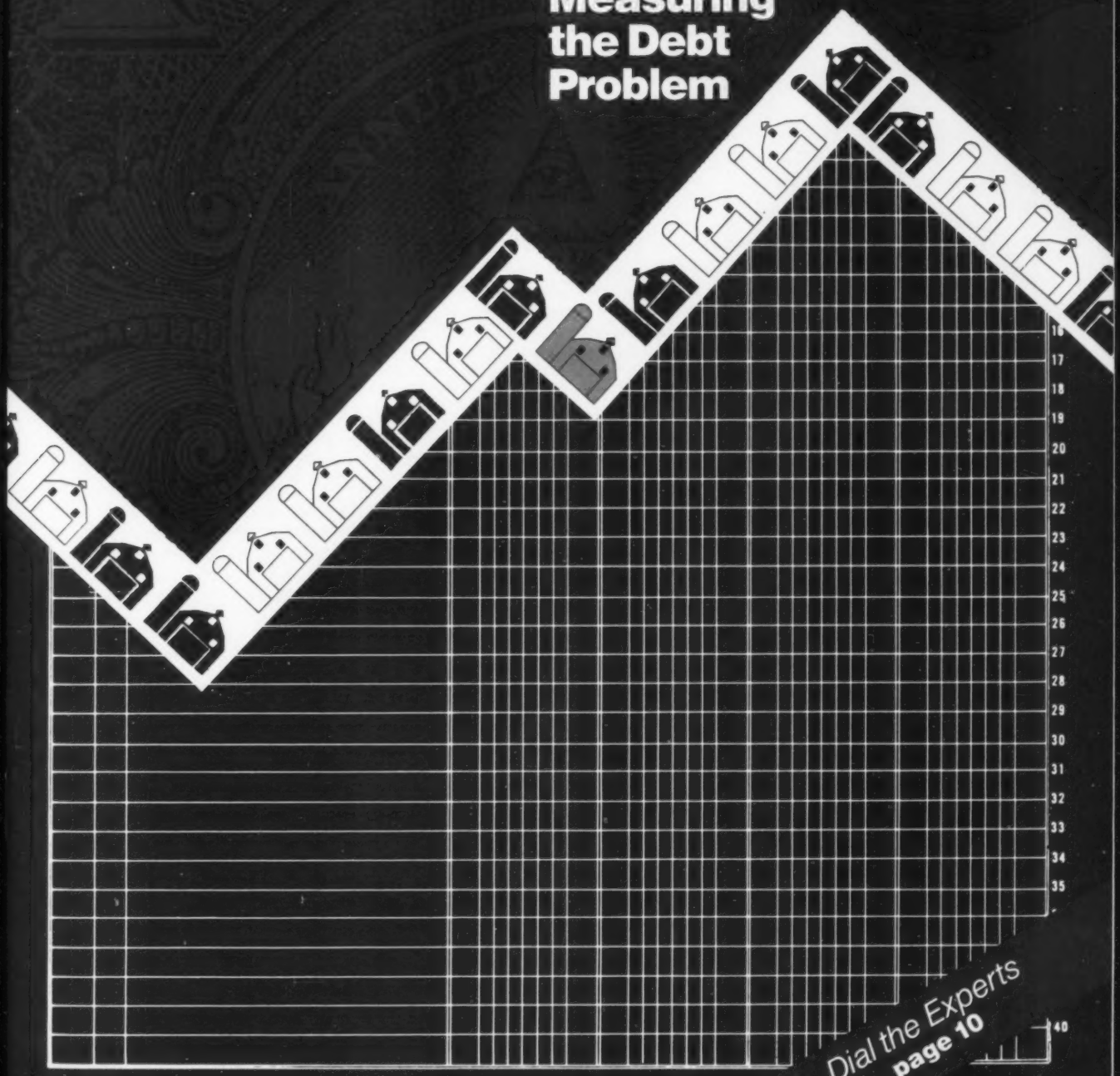
Measuring the Debt Problem



Dial the Experts
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PERSPECTIVES

MORE FARMERS ARE LEASING income-producing assets, including land, machinery, even milk cows, reports agricultural economist Sandra Suddendorf of the Economic Research Service. Decisions to lease, rather than buy, are partly a sign of the times—high interest rates, weak farm incomes, price rises of 100%-200% for land and machinery since the early 1970's, reluctance to take on additional debt, and uncertainty about the future. But, regardless of the times, leasing offers some benefits that buying doesn't. Suddendorf analyzed leasing data from recently compiled results of USDA's 1983 Farm Production Expenditures Survey. The figures document the growth in leasing, which now accounts for about 10% of farmers' total production expenditures.

Leasing of farmland is on the rise, even though total land in farms has declined. Rented land rose from 317 million acres in 1976 to 380 million last year, a 20% increase. Farm expenses for cash and share rents reached $12.4 billion in 1983, up from $11.8 billion in 1980. Meanwhile, the switch continues from share rents to cash rents; today, agreements calling for fixed cash payments per acre cover more than 60% of all rented acreage.

"**Established or expanding farmers** often choose the cash-rental arrangement because they already have most of the inputs, such as fertilizer, seed, and machinery, needed to farm more land." says Suddendorf. "A new farmer may prefer a share-rental agreement, where the expenses and the risk are shared between the landlord and tenant."

Farmers spent about $454 million in 1982 on leased equipment, mostly tractors and other farm machinery. That's a relatively small amount in relation to purchases, but it's up from 1980 leasing expenditures of $331 million. In 1983, spending dropped to $368 million, probably a reflection of PIK-reduced plantings and drought-reduced harvests. Most of the leasing occurs in major crop and livestock areas. Last year, the Western states had 47% of total expenditures on equipment leasing, followed by the Corn Belt at 25%.

"**Rising machinery costs and high interest rates** have helped curb purchases of capital items such as machinery, equipment, and motor vehicles, giving the leasing industry a chance to sell its idea to those farmers who have delayed purchases," Suddendorf says.

Milk cow leasing is also catching on, according to the figures. Farmers spent about $35 million to lease milk cows last year, up from $18 million in 1982. "Limited funds and uncertainty in the dairy market make leasing attractive to new or expanding dairy operators, as well as to some crop farmers who supplement their incomes with small dairy herds. Established dairy operations are more likely to increase herd size through breeding or purchasing new stock," Suddendorf explains. She notes that the current dairy program, which pays dairy farmers to reduce their marketings, may affect the cow-leasing industry. Farmers in the program are not allowed to lease or sell surplus cows to others for milking.

Buying remains the first choice of most farmers, whether the need is land, equipment, or milk cows. Advantages are tax writeoffs for depreciation and interest expenses, accumulation of equity, and pride of ownership. But leasing has its appeal, too. "Down payments are eliminated, working capital is freed for other uses, long-term debt is avoided, and lease payments are a deductible expense on income taxes," says Suddendorf.

Leasing may also offer extra flexibility. You may be able to choose between a short-term *operating lease* and a 3 or 4 year *financial lease*, with an option to buy at a fixed price and loan rate. The short-term lease may be best if you're leasing equipment that's needed for only a brief period each year.

Who's spending the most on leasing? As might be expected, it's the larger commercial-size farms that have the greatest overall production expenses. In 1983, operations with annual sales of $100,000 or more accounted for 76% of total farm expenditures on equipment leasing and 69% of expenditures on cash and share land rentals. "Larger farms have increasingly incorporated leasing of equipment and land into their operating plans," says Suddendorf. "Regardless of farm size, however, it's worth looking into the leasing option. That's particularly true if you're just entering farming, planning to expand, or facing a large capital outlay, and you're concerned about locking yourself into an unmanageable debt."

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FARMLINE

AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT
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The debt restructuring program announced in September comes at a time of severe financial stress on a small, but significant, proportion of the nation's farms. In this article, ERS analysts look at the who, why, and where of the debt problem and discuss its consequences for farmers and farm lenders.

U.S. Producers Claim "Foul" on Canadian Hogs *by Doug Martinez* 8

American pork producers want to slow the surge of Canadian hogs to the United States. They contend the increased supplies are cutting market prices at a time when the U.S. industry is taking losses. The causes are complicated and claims of unfair competition may be open to debate, but one thing is clear: the trend in pork trade is not in our favor.

Competition on the Shelves *by Ellen Banker* 12

Shelf space can be everything. It's coveted by food manufacturers and meticulously planned by retailers. Merchandisers who know their science also know there's a pot of gold at the end of the aisle. The competition on the shelves pits new food products against old and best sellers against slow sellers.

Natural Foods: What's In a Name? *by Ellen Banker* 14

Although natural foods are a growing part of the American diet, they are also a source of some confusion for consumers, retailers, and wholesalers. Are health foods natural? Are natural foods organic? Mother Nature may know, but most of us can only guess.

A Thirsty Generation *by Eric Van Chantfort* 15

Soft drink makers, coffee roasters, and the dairy industry are all vying for the loyalty of this generation of consumers, but there's no doubt who holds the current lead. In the past 20 years, milk and coffee have taken a back seat to soft drinks.

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Measuring the Debt Problem

Whatever its final impact, the farm debt restructuring program announced in September comes at a time of severe financial stress on a small, but significant, proportion of the nation's farms.

To the extent that cash flow problems are temporary, tied to loan repayments or credit limits, debt restructuring may help a number of farmers return to a sound financial footing.

Many operators have already found it necessary to refinance short-term loans, others have been forced to sell off some land or equipment, and some have given up or faced foreclosure. For their part, farm lenders are increasingly concerned about defaults and delinquencies. Credit requirements have been tightened, and more overdue accounts are being closed out.

"Many farmers are doing very well, but there's no doubt that others need help with cash flow and debt problems," says Economic Research Service economist Gary Lucier. Although agricultural interest rates have fallen since 1981 and 1982, they remain high. Last year, net cash farm income, adjusted for inflation, reached the highest level since 1980, but PIK program disbursements take much of the credit. On an inflation-adjusted basis, 1984 cash income is expected to drop below the figures for the last several years.

If overall conditions for agriculture appear more stable than they were a year or two ago, as many economists contend, the greater stability has not yet given some farmers the breathing room they need to handle their accumulated debts. ERS economists Stephen Gabriel and George Amols point to several signs of continuing financial difficulties:

• Based on responses of 522 agricultural lenders to a January survey by the American Bankers Association, 2.5 percent of their loans were under foreclosure and 8.7 percent were considered distressed. Another 22 percent were under close supervision.

Many farmers are doing very well, but there's no doubt that others need help.

• The Federal Reserve Bank of Minneapolis estimated that, between October 1983 and March 1984, 3.4 percent of farmers and ranchers in its seven-state area discontinued farming because of financial difficulties. For comparison, the estimate was 2 percent for the same period a year earlier.

• The American Council of Life Insurance reported that 2.6 percent of the farm debt held by life insurance companies last December was in the process of foreclosure. Figures were 2.4 percent for 1982 and 1.2 percent for 1981.

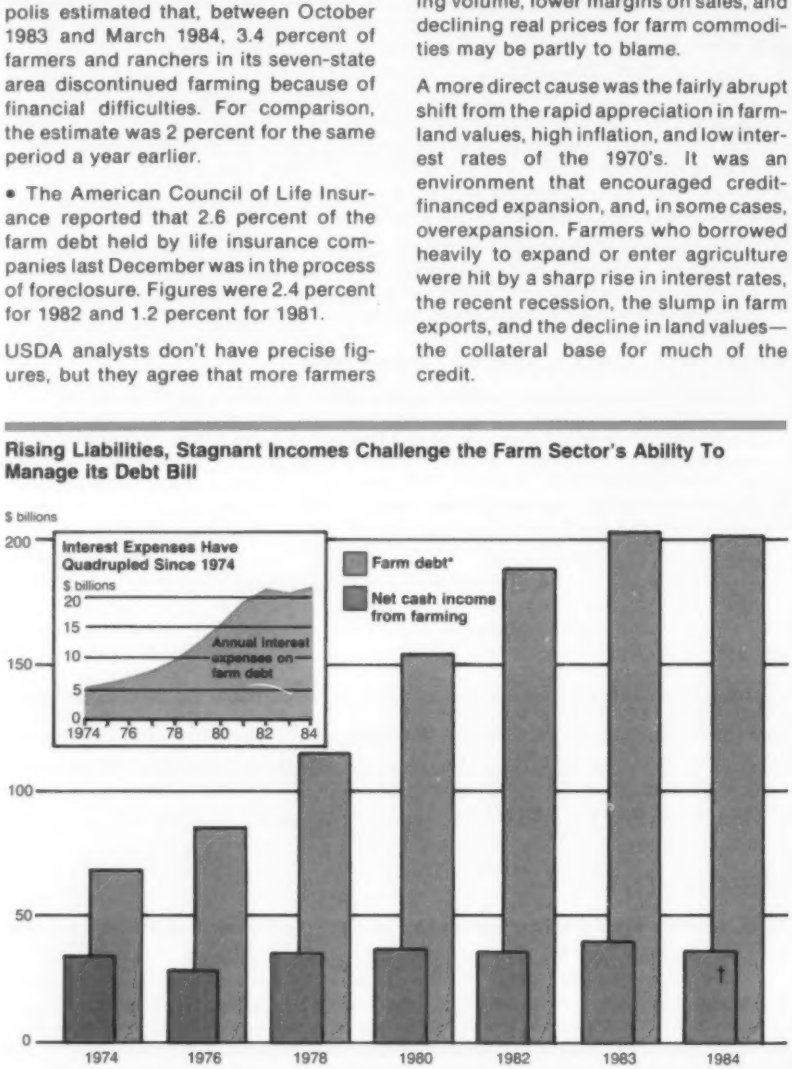
USDA analysts don't have precise figures, but they agree that more farmers are leaving agriculture because of financial troubles.

Why, Who, and Where?

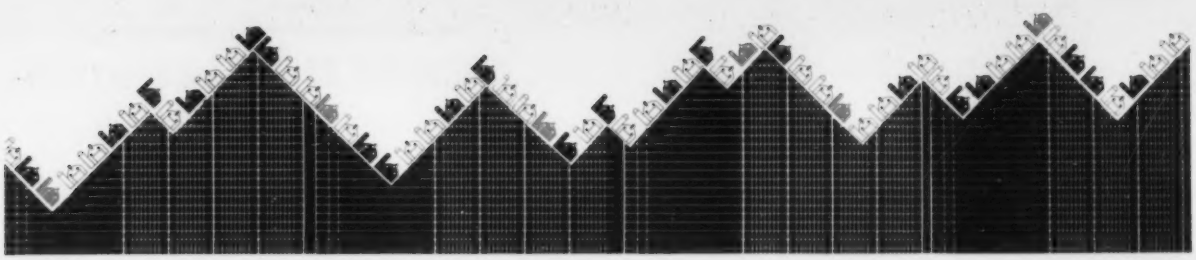
They also say that the financial problems cannot be traced to a single source. Agriculture's long-term pattern of growing volume, lower margins on sales, and declining real prices for farm commodities may be partly to blame.

A more direct cause was the fairly abrupt shift from the rapid appreciation in farmland values, high inflation, and low interest rates of the 1970's. It was an environment that encouraged credit-financed expansion, and, in some cases, overexpansion. Farmers who borrowed heavily to expand or enter agriculture were hit by a sharp rise in interest rates, the recent recession, the slump in farm exports, and the decline in land values—the collateral base for much of the credit.

Rising Liabilities, Stagnant Incomes Challenge the Farm Sector's Ability To Manage its Debt Bill



*Total liabilities of the farm sector (excluding farm household debt) on January 1 of each year. † Forecast of 1984 net cash income $34-$38 billion.



"In the last few years, the agricultural sector has been experiencing extremely difficult financial conditions," explains Stephen Gabriel. "Low and volatile real farm income, growing debt, record-high interest rates, variable-rate loans, and the declining value of farmland have all converged to place many farmers, particularly the highly leveraged operators, in vulnerable financial positions."

Although debt problems are not limited to any specific commodities, regions, or farm sizes, debt tends to be more heavily concentrated among certain types of farms in certain areas. Cash grain farms, for example, show a relatively high proportion of operators with large debts relative to their assets.

The Corn Belt, Northern Plains, Great Lakes states, and the Mississippi Delta are identified as areas where the debt-to-asset ratios of farmers registered the greatest increases between 1980 and 1983. In the Corn Belt, debts reached an average of 21.4 percent of assets in 1983, up from 15 percent in 1980.

Debt-to-asset ratios have continued to climb.

Average debt-to-asset ratios were even higher in the Northern Plains and Great Lakes area, at 26 percent and 25 percent, respectively. In contrast, debts amounted to less than 16 percent of assets in the Southern Plains and less than 20 percent of assets in the Northeast and Appalachia.

Debt Risk and Farm Size

Average debt-to-asset ratios also tend to rise with farm size. In other words, the larger farmers are typically carrying the largest debts relative to assets. Economist Lloyd Teigen sees this group, in general, as the one most exposed to debt risk.

A greater proportion of future income is already committed to repayment of short-term debt, compared with smaller farms. The smaller farms also tend to show greater stability in total income because more of their income comes from off-farm employment.

"Farms having the most problems with debt and cash flow are primarily the highly leveraged commercial-size farms (those with annual sales of $40,000 or more)," confirms George Amols. "Owners of smaller farms appear to be in much better financial shape."

At the start of this year, nearly a third of operations in the $40,000 to $199,999 sales class had overall debt-to-asset ratios of 40 percent or more. More than four out of ten farms in the $200,000-plus sales class carried debt ratios of 40 percent or more. That's considered a high-risk position.

Debt-ridden operators are having an impact on the entire farm sector, where average debt-to-asset ratios have continued to climb. Debts were equal to 17.0 percent of assets in 1980. By January 1, 1984, the ratio had hit 21.6 percent, a historical high. In the same period, outstanding debts rose from $170 billion to $201 billion. Meanwhile, farm sector assets declined in value from $986 billion to $929 billion.

Analysts don't expect an immediate improvement in the farm financial situation. More than 60 percent of total farm debt is owed by highly leveraged operators. "Lenders know," says Amols, "that even if farm income improves, a large portion of their customers will continue to have serious cash flow problems."

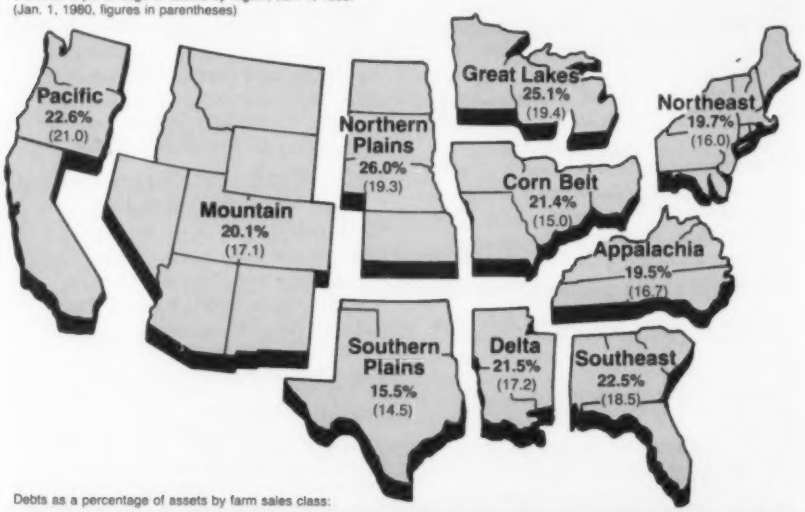
Lenders Are Affected, Too

Financial problems for farm borrowers bring financial risks for farm lenders.

"Farm lenders will probably face a challenging credit environment for several

Where Debt-Asset Ratios Are Highest

Debts as a percentage of assets by region, Jan. 1, 1983: (Jan. 1, 1980, figures in parentheses)



Debts as a percentage of assets by farm sales class:

	$10,000 $19,999	$20,000 -$39,999	$40,000 -$99,999	$100,000 -$199,999	$200,000 -$499,999	$500,000 and up
Jan. 1, 1984	15.7%	15.9%	19.4%	21.5%	27.0%	36.6%
Jan. 1, 1980	12.7%	12.8%	15.2%	16.7%	19.9%	30.4%

years to come," adds Gabriel. "Their continued profitability and strong capital positions indicate they have the ability to cope with future difficulties in the farm sector, but their resiliency may well be challenged."

The Farmers Home Administration (FmHA) typically carries the greatest share of high-risk loans.

"As the lender of last resort, FmHA lends to farmers who cannot obtain credit elsewhere. It would be expected to have its loan portfolio dominated by highly leveraged operators," Gabriel maintains. Other lenders can shift or refer marginal accounts to FmHA to improve their risk position or avoid additional risk. From 1980 to the end of 1983, total FmHA outstanding farm loans grew at an annual rate of 11.7 percent, compared with a 6.1 percent rate of increase for all other lenders.

"Commercial lenders will be extremely careful in evaluating future loan requests," predicts Gabriel. "They will scrutinize their applicants more closely, and they will compete aggressively for the large pool of farmers with low debt-to-asset ratios. They'll be looking for borrowers who are not dependent on asset appreciation to service their debts."

Although there will be regional variations, he says, U.S. farmland values are not expected to change significantly over the next few years. In the 1970's, rapid appreciation in the value of farm assets, particularly land, allowed a significant expansion in debt that was backed up by the rising net worth of borrowers.

"As long as interest rates remain substantially higher than the rate of return to farm assets, and the prospect for growth in asset values remains dim, borrowing can be a hazardous financial management strategy for both farmers and lenders," Gabriel concludes.

"Obviously, a reduction in interest rates or an improvement in returns would help borrowers. However, most of those who have been accumulating losses need to restructure their balance sheets to return to long-term profitability." □

[*Based on information provided by economists Stephen Gabriel, George Amols, Gary Lucier, and Lloyd Teigen of the National Economics Division, Economic Research Service.*]

Interest Rates Are Down From Earlier Peaks, But They're Higher Than They Were 10 Years Ago

	Rural banks	PCA's	FmHA
	interest rates on new short-term farm loans[1]		
1974	8.53	9.27	6.75
1976	9.09	8.49	8.50
1978	9.20	8.64	8.00
1980	16.39	13.65	12.01
1981	17.02	14.19	14.15
1982	17.40	14.84	14.85
1983	14.20	11.77	10.25
1984	14.10	12.10	10.25

[1]Rates shown are for the second quarter of each year.

Restructuring Farm Debt

According to FmHA, the Farm Credit Initiative, announced on September 18, is designed "to help farmers who have demonstrated operating skills but cannot repay existing loans due to cash flow problems." The program provides for:

- five-year deferrals on collecting part of an FmHA farm borrower's debt so that required payments will be within the means of the borrower's cash flow. FmHA may set aside up to 25 percent—not to exceed $200,000—of the borrower's total debt to FmHA. Deferrals will be considered on a case-by-case basis, but eligibility includes all FmHA borrowers who are "good managers" and are in financial distress. No interest will accrue on the set-aside portion of the debt during the 5-year period.
- about $630 million in loan guarantees to be made available to private-sector lenders to encourage them to restructure debts of distressed borrowers on a basis within their ability to pay. The lender must write off at least 10 percent of what the borrower owes.
- local assistance by FmHA professionals or contracted experts in helping farmers develop financial plans and restructure their debts. FmHA can contract with up to two local farm management and farm credit experts to provide such guidance. This service will not be limited to FmHA borrowers.
- assistance to FmHA in eliminating delays and backlogs in handling paperwork and processing related to loans. FmHA will get this help by contracting with local banks and other financial institutions.

Officials emphasize that this is a temporary debt-management program intended to assist farmers through current difficulties in handling large debt obligations. FmHA expects the program to be fully implemented by the end of the year.

You can obtain further information on eligibility and application procedures by contacting your county FmHA office. The phone number is listed in your telephone directory (white pages) under United States Government—Agriculture Department—Farmers Home Administration.

Fruit Trade, EC Expansion

Expansion of the European Community (EC) should have no serious impact on the international market for fruits and vegetables.

That's one finding detailed in a recent ERS report examining how the addition of Greece, Portugal, and Spain to the EC may affect world trade in produce. The study suggests that the expansion would have the greatest impact on the EC itself.

The EC is the world's largest importer of fruit and vegetable products, while Greece, Spain, and Portugal are exporters. Membership in the EC would give them a significant advantage over rival exporters of these products in selling to other EC nations.

Greece joined the EC on Jan. 1, 1981, to become the 10th member. Portugal and Spain may join by Jan. 1, 1986.

"Enlarging the European Community will not significantly change the general pattern of world trade in fruits and vegetables," says author Alexander Sarris, formerly at the University of California, Davis, and now a professor of economics at the University of Athens in Greece.

Rather, he says, "it is projected to benefit the enlarged Community of 12." He estimates that about $400 million in new trade in fruits and vegetables will be generated between the former EC-9 and Greece, Portugal, and Spain.

Although these gains will be partially offset by some diversion of trade away from previous suppliers, the increase in the new members' exports will "not be at the expense of any single country or region."

Instead, he says, "the costs of trade diverson will be borne rather uniformly across most exporters."

For the United States, the effect of EC expansion will be minimal, says Sarris. "The United States exports the bulk of its fruits and vegetables to Canada and Japan. Except possibly for processed peaches, U.S. exports should not be greatly affected."

For other suppliers as well, he says, "the concern that increased produce from the new members will hurt their exports is largely unjustified. The detrimental effects on the international markets for these products will come mostly from general trends in world supplies and incomes. Supply is expected to increase more rapidly than demand and exert a downward pressure on prices."

World Trade in Fruits and Vegetables: Projections for an Enlarged European Community *by Alexander H. Sarris. (Published August 1984; 58 pages of text and tables; GPO Stock No. 001-019-00342-1; $2.75.)*

Focus on Rural America

A new USDA magazine is focusing on problems and prospects affecting rural development and other important rural issues.

Rural Development Perspectives invites you to share the thinking of USDA economists and social scientists as they discuss their research, the implications of their results, emerging trends, new ideas, and "lessons learned elsewhere." Articles will address such concerns as providing rural services, generating jobs, financing local government, providing adequate housing and health care, and preserving and improving the quality of rural life.

A sampling of feature articles in upcoming issues:

- *Low-income counties.* Many of the same counties appear in the low-income ranks from one decade to the next. Can they break the pattern?
- *Alternative mortgages.* Today, there is a variety of alternatives to the traditional 30-year fixed payment mortgages. What is their role in rural areas?
- *Wage rates.* What effects do recent migrants to rural areas have on the area's wage rates? Who benefits? Newcomers? Long-term residents? Or both?
- *Small independent businesses.* How important are branch plants and independent businesses in rural local economies?

The magazine will be published three times a year. Each issue will include eight to ten feature articles, reviews of important books on rural growth and problems, and a selection of charts and maps depicting rural trends.

Rural Development Perspectives *by Economic Research Service economists and others. (Published October, February, and June; averages 44 pages of feature articles, short subjects, maps, and charts; subscription price $10.00 a year domestic addresses, $12.50 foreign.)*

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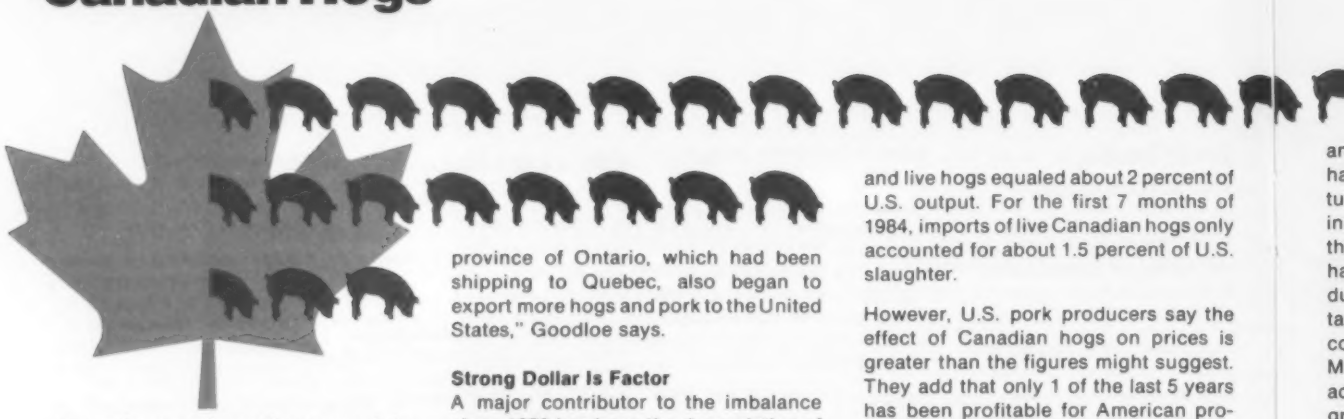
U.S. Producers Claim 'Foul' on Canadian Hogs



American pork producers want to slow the surge of Canadian hogs to the United States. They claim the increased supplies are cutting market prices at a time when the U.S. hog industry has been taking losses.

The 110,000-member National Pork Producers Council has urged the U.S. government to impose a duty on Canadian hogs to counter any subsidy advantage enjoyed by Canadian farmers. In testimony before Congress, the council also suggested a retaliatory quarantine on Canadian hogs entering the U.S. market. A similar quarantine puts a 30-day hold on U.S. hogs shipped to Canada because of the presence of pseudorabies in the United States. (Canada has been certified as free of pseudorabies.)

For the first 8 months of 1984, U.S. imports of live Canadian hogs jumped 172 percent from year-earlier levels to over 860,000 head. And Canadian pork shipments to the United States for the same period rose more than 25 percent.

"The trends in Canadian-U.S. pork trade are clear," says Economic Research Service economist Carol Goodloe. "Since the mid-1970's, Canadian exports of both pork and live hogs to the United States have increased tenfold, while U.S. exports to Canada have declined to only a sixth of earlier sales."

By 1979, the United States had shifted from being a net pork exporter with Canada to a net importer. A crucial factor was the large increase in hog production in Quebec. "Looking for other markets, Quebec producers began exporting to the United States. Their neighboring province of Ontario, which had been shipping to Quebec, also began to export more hogs and pork to the United States," Goodloe says.

Strong Dollar Is Factor

A major contributor to the imbalance since 1979 has been the depreciation of the Canadian dollar relative to the American dollar.

"The U.S. dollar is now trading at a historically high level of around $1.30 Canadian," says Goodloe. "That reflects a generally weaker Canadian economy marked by higher inflation and unemployment and lower productivity than in the United States."

She says exchange rates affect both prices and trade flows. The high-value American dollar raises the price of U.S. hogs to Canadian buyers and lowers the price of Canadian hogs for American buyers, Goodloe explains. Partly because of the exchange rate, prices for imported Canadian hogs are lower than U.S. hog prices, even after adjusting for transportation costs. Consequently, U.S. packers are bidding more aggressively against Canadian buyers.

In addition, Canadian packers are hamstrung by their less competitive meatpacking industry. "Higher wages in Canada have meant that Canadian producers can get a better price for their hogs in the United States," Goodloe says. "This is particularly true in western Canada, where the meatpacking industry is doing poorly. Some plants are underused and obsolete, and processing costs are higher than in the eastern Canadian plants. For all these reasons, a growing number of hogs are being slaughtered in the United States."

Yet even with the recent, rapid increases, Canadian pork and live hog exports to the United States are small when compared with total U.S. production. In 1983, imports of Canadian pork and live hogs equaled about 2 percent of U.S. output. For the first 7 months of 1984, imports of live Canadian hogs only accounted for about 1.5 percent of U.S. slaughter.

However, U.S. pork producers say the effect of Canadian hogs on prices is greater than the figures might suggest. They add that only 1 of the last 5 years has been profitable for American producers and that producers were hoping for a return to profits this year.

Only recently has a mid-summer pickup in hog prices and a decline in corn prices raised farrow-to-finish producers' returns above break-even levels. U.S. pork producers claim Canadian hogs are partly to blame by inflating supplies. The National Pork Producers Council sets the minimum loss to domestic producers at more than $300 million through the first half of 1984.

Fact-Finding Investigation

The council has announced plans to petition the U.S. International Trade Commission (ITC) and the Commerce Department to impose a duty on live hog imports. For the present, there are no duties on live hogs or fresh and frozen pork products shipped in either direction. If a petition is filed, the ITC must initiate a formal investigation and take evidence from all interested parties. The ITC then determines whether an unfair trade practice exists and, if so, what action to recommend to the President. The President has the final say.

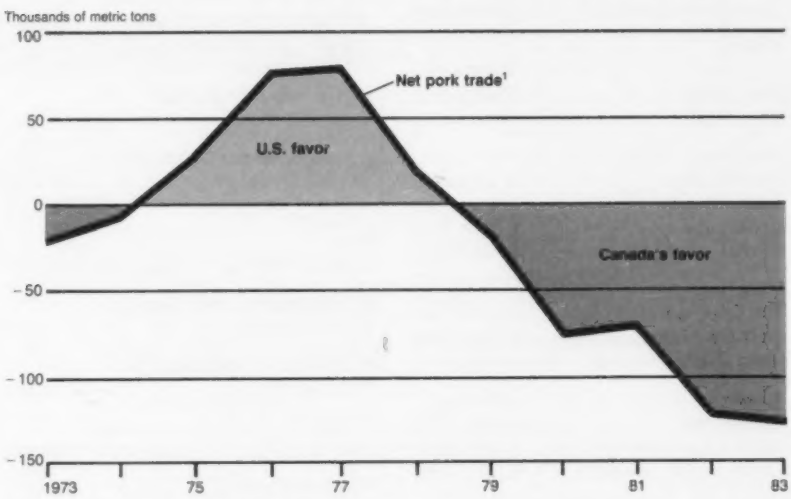
Currently, the ITC is conducting a fact-finding investigation, at the request of the Senate Finance Committee, of the Canadian and U.S. pork industries. The commission's report is expected this month. The report will not judge whether subsidy complaints of pork producers are justified. It will simply present facts of the case.

In the session that ended last month, Congress also took a look at the issue. Legislation was introduced that would have shielded American producers from

any unfair competition. The bill would have required the Secretary of Agriculture to determine if the Canadian hog industry is receiving a subsidy and, if so, the Secretary of the Treasury would have been required to impose an import duty offsetting any unjust trade advantage. The bill was being studied in a subcommittee of the House Ways and Means Committee before Congress adjourned in October. The new Congress that convenes early next year may take up the matter again.

On the Senate side, a nonbinding resolution was passed this year urging administration officials to pursue negotiations with the Canadian government to resolve the problem. In recent months, USDA officials have made three high-level visits to Canada—including a mid-October trip by Secretary Block—to discuss this and other issues with Canadian government officials. Our officials report that Canada is not insensitive to U.S. concerns.

Once a Net Pork Exporter to Canada, the United States Is Now a Net Importer



[1]Includes live hogs and pork products.

Through the First 8 Months of 1984, U.S. Imports of Canadian Hogs Far Outpaced Previous Years

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Annual total
	hog numbers (in thousands)								
1982	12.6	26.5	36.4	18.4	14.1	17.5	21.2	19.2	294.9
1983	68.5	34.0	41.0	39.8	27.2	33.0	20.2	42.2	447.4
1984[1]	92.4	88.0	94.0	114.8	97.4	117.2	137.1	120.7	1-1.5 mil.[2]

[1]Latest figures available for 1984. [2]Projected total for 1984.

Economist Goodloe says that "although there are no direct export subsidies, Canadian pork producers have obviously benefited from both federal and provincial government programs."

Canada's federal government paid out the equivalent of about $5 in U.S. currency per hog to its producers in the 1983/84 marketing year. However, the overall level of support, which amounted to $60 million in Canadian dollars, was reduced by the percentage of hogs that were exported. In addition, payments from individual provincial programs were also deducted from the federal payment.

Before 1983/84, overall support payments were not reduced based on the percentage of Canadian hogs entering export channels.

Of course, the payments still have an impact on Canada's production, and, thus, on exports.

"Canadian federal government payments probably provided the necessary margin many producers needed to maintain production when prices were falling," says Goodloe. In other words, Canadian government payments kept Canadian producers from cutting back when prices dropped.

She says payments from Canada's provincial governments during the early 1980's likely mitigated the impact of low prices, "because Canadian hog inventories and slaughter remained stable, while sharp cutbacks occurred in the United States. This also appears to be the situation now in western Canada, where hog inventories are expanding."

Canadian hog production is now growing as American hog numbers drop. Large imports from Canada are expected to continue as long as Canadian hogs have a price advantage, so the debate isn't over. □

[Based largely on information provided by economist Carol Goodloe of the International Economics Division, Economic Research Service.]

Dial Up Agricultural Economics and Statistics

Here are the Economic Research Service and Statistical Reporting Service experts who can provide much of the information you need about today's agriculture. Generally, those listed with an "S" can give you the latest production and stocks estimates, and those identified with "E" can help with supply-demand-price questions and other economic relationships. All telephone numbers can be reached by dialing area code 202.

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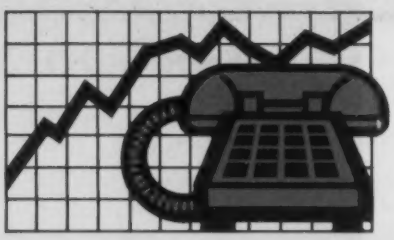

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Competition on the Shelves

Suppose you're doing your grocery shopping and you're in a hurry. You stop at the breakfast cereal section and reach for your regular brand. But, wait. Another brand is on your shelf! The box says it's new, fiber-filled, and fortified with essential vitamins. There's something appealing about the package, and a little sign says you get 20 cents off the marked price.

You hesitate. Do you look around for your old standby brand or do you toss the new and improved cereal into your shopping cart?

The decision you make will have an impact on the manufacturer, the retailer, and the shelf.

Shelf space. It's coveted by manufacturers. No matter how large the grocery store, there is only so much shelf space. On the other hand, there seems to be a virtually unlimited supply of food and nonfood items you might expect to find in a grocery store. It's not unusual for 12,000 to 15,000 different items to be stocked in a single supermarket.

Why are some items stocked by retailers and similar items nowhere in sight? Why are some products positioned on top shelves and others stacked on the bottom?

The most obvious answer—items that sell well get the best space—is only one aspect of stocking grocery store shelves, according to USDA economist Larry Hamm of the Economic Research Service. Two other major considerations are advertising and promotion.

"The food industry is more dynamic today than ever before," Hamm says. "Manufacturers are introducing about 3,000 new products each year and they advertise and promote each one. Probably 80 percent of the items on the shelves today were not there just 10 years ago. And what sells well this month may sell poorly next month."

Why We Buy

There are many reasons consumers select the foods they do: habit, price, convenience, packaging, availability, variety, and concerns about nutrition are just some. These factors, and lots of other details, are considered when manufacturers plan a campaign to influence consumers to try their new product. In essence, advertising and promotion are the keys to marketing a new product to the American "I'll try anything once" appetite.

Position can be everything.

Marketing plans targeted to specific groups of consumers have brought a new sophistication to selling new products.

"This sophistication has been carried over to stocking supermarket shelves in the form of more advanced merchandising techniques," Hamm says. Merchandising, the subspecialty that gets the product on the shelf, has been developed into something of a science by many retailers and manufacturers, he adds.

Hamm defines food merchandising as the activities associated with retailer purchasing and pricing of products and presenting them to the consumer. "It boils down to the overlapping objectives of retailers and manufacturers."

Retailers want to increase sales volume per fixed investment in stores, warehouses, and labor resources. Retail merchandisers create shopping images for their stores to attract new customers and to induce their customers to spend more money.

Manufacturers are concerned with increasing the share of the market for their products over the products of their competitors.

Both are aiming to influence consumer purchasing and, when they work together, they are a formidable pair.

Creating Demand

The retailer may advertise heavily, offer discount coupons, construct elaborate displays, and allocate space to items that are being advertised.

The manufacturer may also advertise heavily, offer cents-off coupons and rebates to consumers, and offer special allowances to retailers for promoting, advertising, and distributing a specific product.

"Joint manufacturer-retailer promotions are very effective," Hamm says, but sometimes one segment of the food industry is out to influence the other.

Here's an example: A company brings out a new product, advertises it widely, offers discounts on bulk purchases to retailers, and cents-off coupons and rebates to consumers. What's really happened is that the manufacturer has created (or tried to create) a demand.

The retailer is then in a bind. Consumers will probably want to try the new item and take advantage of the manufacturer discounts. If the retailer doesn't stock the item, regular customers may go to another store, perhaps permanently.

What this translates into is competition for shelf space—new items versus established items, best sellers versus slow sellers.

Prime Space Wanted

Shelf space layouts are carefully designed and determine in detail which products are placed where and, especially, which products get the prime displays.

"Position can be everything," Hamm says. The decision on how many rows (called "facings" in the industry) to give a particular product can double sales or cut them in half. "However, the space technique with the most sales impact," he says, "is the end-of-aisle display." When combined with advertising, the end-of-aisle display is almost always a winner.

Hamm cites a past study done for *Progressive Grocer*, an industry publica-

Shelf space layouts are carefully designed and determine in detail which products are placed where and, especially, which products get the prime displays.

tion, on the effectiveness of various display techniques:

- Sales of an item dropped by 80 percent when it was moved to the bottom shelf from a top-shelf display, although the price and number of facings remained the same.
- The use of a simple "As Advertised" sign to point out an advertised product on the shelf increased sales by 124 percent compared with the same product without a sign.
- Sales increased 542 percent for a specially priced item when it was moved from the shelf area to an end-of-aisle display with colorful signs.
- A combination of techniques proved to be most successful. Sales increased by 782 percent when a specially priced product was advertised in the newspaper and highlighted with a shelf sign.

Although the data cited are not recent, they are representative of techniques that are widely considered successful today. "Such data are rarely made public," Hamm says, "because the information can make a retailer more competitive. Those who do have it closely guard their findings."

Computers Scan Sales

Today, computers have made merchandising information easier and faster to collect. "For years, retailers could only gather this information by implementing labor-intensive controlled experiments that were usually very difficult and expensive to conduct," Hamm says.

But computer scanners at checkout counters now give sales tallies almost instantly. When inventory information is linked to demographic consumer information available through check-cashing cards, retailers can have detailed breakdowns on product sales by family size, income, and occupation.

Through computers, retailers can measure the effectiveness of various promotions and marketing techniques. Computerized space allocation systems are now very common in large chains. Eventually, the store computer will be able to directly link with the manufacturers' computers, so products can be ordered and billed electronically.

While this technology has generally been too expensive to implement for many smaller food concerns, micro computers may be able to bring some chain-store technology to Mom-and-Pop food stores. Software programs for micros can provide detailed space allocation plans based on sales, gross profit, direct product profit, or weekly supplies. □

[Based on material provided by Larry G. Hamm, Charles Handy, and Rosanna Mentzer Morrison of the National Economics Division, Economic Research Service.]

Natural Foods: What's In a Name?

Are health foods and natural foods organic?

No doubt about it: "Natural" foods are a growing part of the American diet.

Nationwide, the number of retail stores specializing in health and natural foods increased from about 1,000 in 1970 to more than 8,000 in 1982, according to USDA economist Charlene C. Price of the Economic Research Service.

Price says a wide variety of items are available. In addition to the original vitamin and food supplement products, many stores now carry processed and packaged foods, organic produce, spices, herbs, soybean products, snack items, books, health and beauty aids, appliances such as juicers and grain mills, and natural fiber clothing.

Also, a growing number of retailers are stocking natural foods on conventional supermarket shelves.

But, Price says, advertising claims associated with the natural and health food movement have created some confusion for consumers, retailers, and wholesalers. Are health foods and organic foods natural? Are natural foods organic? Although Mother Nature may know, most of us can only guess.

"Uniform definitions and standards would certainly help alleviate the confusion," Price says, "and could very well give the industry more credibility in the eyes of some consumers."

Getting Down to Definitions

Price explains: The industry may use the term "health" to speak of specific foods such as vitamins, wheat germ, brewer's yeast, blackstrap molasses, brown rice, and whole grains. The consumer may use the term in a more general sense to include natural foods and possibly organic foods, Price says. In fact, confusion is so widespread that the Federal Trade Commission (FTC) has prohibited the use of the term "health foods" in advertising and labeling on any foods. The term is undefinable for food products, according to FTC research.

Deception, intended or not, was the main concern cited by the FTC. Researchers felt that the term "health" falsely attributed special or superior health-giving properties to certain foods, and that such a claim could not be justified.

Most industry officials agree on the proper uses for "organic" and "natural," even though proposed FTC definitions for both were not adopted by Congress. However, USDA is using the FTC proposed definition for "natural food" in labeling meat and poultry products.

To be considered natural, food must be minimally processed. This means it is preserved by any technique that can be done in a home kitchen, including canning, baking, freezing, bottling, and grinding. Preservation cannot include the use of synthetic chemicals or sophisticated techniques such as irradiation.

To be considered organic, produce must be grown on soil fertilized with organic nutrients, manures, or composts. No pesticides, herbicides, or synthetic chemicals can be used. This also applies to meat production. Animals must be raised on organically grown rations, without growth regulators.

No Federal Standards

Although Congress has considered legislation on organic foods, no bills have been passed. Laws designed to regulate the organic farming industry and the labeling of organic products were generally considered too difficult to enforce.

The most recent legislation introduced in the Senate is intended to help promote organic farming. It would establish a farmer-to-farmer assistance program through USDA's Extension Service as well as authorize research on organic farming techniques at six land-grant colleges.

Some states—Oregon, California, and Maine—have established standards for foods that are advertised or labeled as organic. Although state agencies don't actually certify foods as organic, private certification groups approved by the states handle this function.

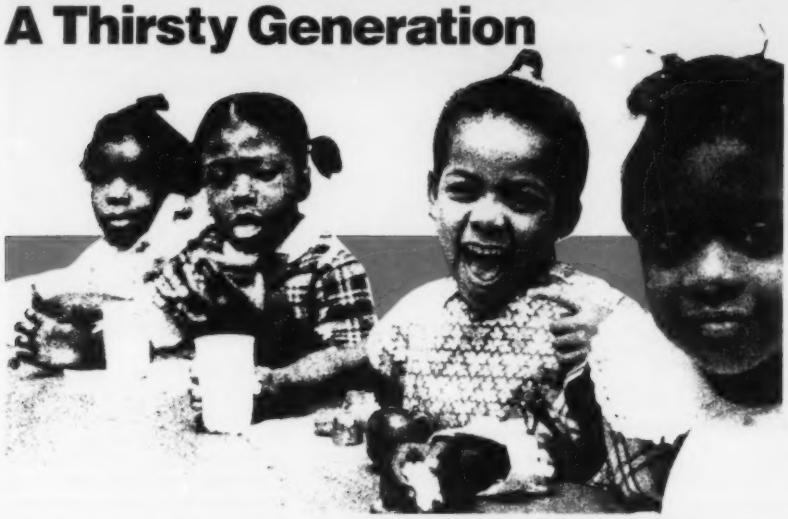
Back in the 1940's, after years of major technological changes in agriculture, Robert Rodale emerged as a pioneer in renewing the interest in organic farming practices. He developed techniques for use in the United States that were patterned after organic farming methods in Great Britain. In 1970, he was the first American to develop a pilot program of standards that certified foods as organic. Rodale eventually discontinued his pilot as other certifying organizations developed, most of them adopting his original standards.

With limited state legislation, many private growers have initiated their own certification programs in an effort to develop quality control standards.

One group that represents many growers, the National Nutritional Foods Association, is studying ways to avoid quality misrepresentation and fraud, which could damage the industry. The group has organized committees that are developing basic standards as well as a label, something like the U.L. (Underwriters Laboratories) or Good Housekeeping Seal of Approval, that can be awarded to qualified products. □

[Based on information provided by economist Charlene C. Price of the National Economics Division, Economic Research Service.]

A Thirsty Generation



Soft drink makers, coffee roasters, and the dairy industry are all vying for the loyalty of this generation of consumers, but there's no doubt who holds the current lead. Americans consumed enough soft drinks in 1983 to average 40 gallons per person, and the figure may still be rising. The average was less than 18 gallons back in 1963.

Coffee, not soft drinks, was the top beverage then, with Americans sipping java at the rate of 38 gallons per person. Today, the two beverages have switched places, and coffee consumption has fallen to about 25 gallons per person per year.

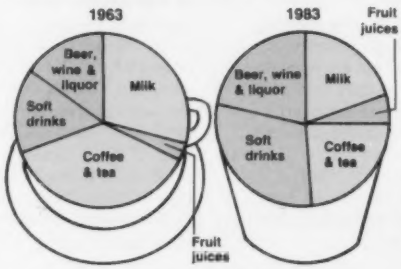
Milk, too, has taken a beating, with consumption per person dropping in 16 of the last 20 years.

These are a few of the findings of USDA economist Karen Bunch and analyst Julie Kurland of the Economic Research Service after they studied shifts in per capita beverage consumption. They report the following trends:

• Either Americans have gotten thirstier, or the plain old glass of water is out of favor. Overall consumption of commercial beverages rose about 18 gallons per person between 1963 and 1983, from 116 to 134 gallons a year. Apparently, we now head for the refrigerator, the vending machine, the fast food outlet, or the pub—rather than the water tap—when thirst strikes.

• Of total beverage consumption, roughly one glass out of five is an alcoholic drink. On average, Americans consume 28.4 gallons of beer, wine, and liquor a year, up from 17.6 gallons in 1963. Beer consumption per person climbed 60 percent in the last 20 years, and wine consumption more than doubled.

Winners and Losers in Shares of Total Beverage Consumption



• Fruit juices are doing well, more than keeping up with population growth. Average consumption per person rose more than 100 percent from 1963 to 1983.

• Milk drinking dropped 6.7 gallons per person, from about three of every ten beverages consumed to one out of five. Use of whole milk plunged from more than 29 gallons per person in 1963 to less than 16 gallons, but sharp gains for low-fat and skim milk offset part of the loss. Surveys show that even youngsters 6 to 12 years old are drinking less milk these days.

• Coffee, the most popular beverage in 1963, now ranks third after soft drinks and milk, and just a gallon per person ahead of beer. Changing tastes and lifestyles, price trends, health concerns, and the switch by manufacturers to a more bitter bean are possible explanations. Whatever the reasons, the industry is trying to reclaim a "coffee generation" of its own among young professionals. According to the International Coffee Organization, 81 percent of individuals in their twenties were coffee drinkers in 1962, compared with only 43 percent in 1983.

Soft Drinks and Beer Gain at the Expense of Coffee and Milk

	1963	1973	1983
	gallons per person		
Milk	33.2	30.7	26.5
Fruit Juices[1]	3.3	5.6	7.1
Tea	6.6	7.5	6.6
Coffee	37.7	32.8	25.3
Soft drinks	17.7	26.8	40.0
Beer	15.3	20.1	24.3
Wine	0.9	1.7	2.3
Distilled spirits	1.4	1.9	1.8
All beverages[2]	**116.1**	**127.1**	**133.9**

[1]Excludes tomato and other vegetable juices.
[2]Excludes water and reconstituted drink mixes.

• Soft drinks, beer, wine, and liquor contribute about 10 percent of the daily calories consumed by Americans, up from only 5 percent in the early 1960's.

In the continuing competition for consumers, further gains for one beverage will probably have to come at the expense of another, says economist Bunch. By most estimates, Americans are close to drinking their fill, and growth in U.S. population is very slow.

Soft drink manufacturers seem to be reaching for new customers with no-caffeine, diet, and NutraSweet-sweetened sodas. Beer is going light and low alcohol, possibly to appeal to more women. Unless milk can succeed with the health and nutrition appeal, it may continue to lose ground. □

[Based on information provided by economist Karen Bunch and analyst Julie Kurland of the National Economics Division, Economic Research Service.]

AGRICULTURAL ROUNDUP

How Much Will the Soviets Buy?

How much American grain are the Soviets going to buy?

No one has the answer, of course—possibly not even the Russians. Although they are always tight-lipped on such matters, there may be little they can say. Their harvest prospects deteriorated faster and further than anyone expected, and they're probably basing buying decisions on a continuing assessment of their needs and comparative prices of potential suppliers.

Economic Research Service analysts say that the Soviets may buy a record 20 million metric tons of grain from the United States for delivery in fiscal 1985, which began October 1. The Soviets bought a near-record 14.6 million tons of U.S. grain for delivery in fiscal 1984, which ended September 30.

They started buying for fiscal 1985 back in June, and, by October 15, had already contracted for more than 10 million tons for shipment in coming months.

The U.S.-USSR grain trade agreement requires the Kremlin to buy a minimum of 8 million tons of U.S. grain each October-September year, in equal quantities of wheat and corn. They must also buy either another 1 million tons of grain or half a million tons of soybeans or soybean products. The agreement allows the Soviets to buy as much as 12 million tons of American grain a year without U.S. permission.

In September, after eyeing American surpluses and anticipated Soviet needs, U.S. officials offered the Soviet Union up to 22 million tons. The ceiling could be upped again in regular semi-annual consultations provided for in the agreement. Consultations are scheduled for this month.

USDA analysts have estimated that the Russians will harvest around 170 million tons of grain this year, well below their 1976-80 average of 205 million tons.

There are many reasons for the Soviet agricultural problems, including drought in the Soviet New Lands and a decrease in grain area. In addition, the Soviets seem not to have provided enough trucks to move grain and equipment.

To make up for the shortfall, ERS economist Anton Malish says the Soviets are expected to import a record 50 million tons of grain from all suppliers during this July-June marketing year, exceeding the record of 46 million tons set in 1981/82. Roughly 40 percent of the imports may come from the United States.

Even if the Soviets buy 20 to 22 million tons of U.S. grain, it's not expected to boost American farm prices too much from where they are now, says economist Sam Evans, who follows domestic markets.

Evans says that the farm and consumer price impact of these most recent purchases will not match the fallout from the Soviet "buying-spree in the summer of 1972." That was the year that the Soviets unexpectedly entered our market and bought 17.6 million tons of grain in one month. The sharp and sudden increase in exports placed severe inflationary pressures on the American economy.

Not only is the United States better supplied with grain than in 1972, but "the expectation was that the Soviets were going to be large buyers," Evans says. In 1972, it was "more of a bombshell."

Pumpkin Time

Whether you're after the scariest jack-o-lantern or the perfect pie, you can probably find a pumpkin to suit your needs just about anywhere in the country. Bright orange pumpkins piled up on country and urban stands are part of the autumn landscape.

According to the latest Census of Agriculture, taken in 1982, pumpkins are grown on just under 26,000 acres of the nation's farmland. Pumpkins are usually a sideline or confined to the farm garden, although they are becoming a popular attraction on many "pick-your-own" orchards and berry farms, according to University of Illinois Professor Emeritus Joe Vandemark.

Processors who buy pumpkins for pie and some other foods depend primarily on Illinois and California. Illinois is the nation's top commercial producer, with 5,320 acres in pumpkins during 1982, according to the U.S. Bureau of the Census. California is next, with 1982 acreage at 3,039.

"Processing pumpkins are a lot different from the ones you'd use as jack-o-lanterns," Vandemark says. The most important distinction: Less moisture is retained in the meat, so cooking and processing take far less time than for the typical Halloween pumpkin. "And they don't look a thing alike," Vandemark adds.

Processing pumpkins are beige in color, although the flesh under the skin is still bright orange. "It's really their oval shape that makes them unfit for cutting out Halloween faces," Vandemark says.

Vandemark grows 10 acres of pumpkins on his farm just outside Urbana, Ill. The acreage is divided equally between processing pumpkins and the jack-o-lantern variety. "We have about 5 acres of pick-your-own fields," Vandemark says. "It's a delight for the children. And seeing them choose the perfect pumpkin is really a thrill every time."

Corn field is the oldest bright orange variety. Others include *Small Sugar, Spooky,* and *Little Big Horn,* named for the shape of its stem.

For processing, *Dickenson Field* is most commonly planted, Vandemark says. And this year's crop in Illinois looks pretty good. Although no production statistics are maintained by the state, the Vegetable Growers Association has indicated the 1984 crop should be "plentiful."

Plugging the Leaks

Leaking underground fuel tanks may become an expensive problem for some farmers in the near future.

According to policy analyst Gerald Grinnell of USDA's Office of Energy, state and federal regulations to prevent contamination of subsurface water supplies may raise the cost of buying and maintaining storage tanks. Several laws passed in recent years and others still under consideration tighten restrictions on water pollution, and, in some cases, can make polluters pay for cleanup.

An estimated 900,000 of the nation's 2.3 million underground fuel tanks are found on farms, Grinnell says, meaning these

Photo courtesy of Buffalo Tanks

regulations could have an impact on farmers.

Most of the subterranean tanks in use are made of steel and are not protected from corrosion, according to Grinnell. Moreover, almost one-third of the tanks in use are believed to be at least 20 years old and therefore more vulnerable to leaks.

An important factor in whether a tank will leak is how well it is installed, and Grinnell encourages all farmers to familiarize themselves with the best methods as well as the local regulations for installation.

But once a unit is in the ground, how can a farmer know whether it leaks? Grinnell says the best way is to keep a careful record of fuel purchases and use, and to "take measurements of the fuel that's in the tank." That way you can make sure you are not adding fuel faster than you are consuming it.

Persistent discrepancies in fuel levels probably mean an unsound tank.

Outside firms can check for a leak with any number of tests. One of the simplest is using a "standpipe" to gauge the fuel level. Grinnell estimates the cost of such a test at around $500 per tank.

Should tests confirm the existence of a leak, the tank can be replaced or repaired.

According to Grinnell, the cost of a new 1,000-gallon tank ranges from $500 to $3,000. For a new 10,000-gallon model, the cost is $3,000 to $14,000. Installation and delivery charges for a 10,000-gallon tank can add several thousand dollars to the price.

Relining an old steel unit in the ground runs from $1,500 for 1,000-gallon tanks to $4,500 for 10,000 gallon models.

Grinnell emphasizes that most leaks do not damage the environment or find their way into subterranean water supplies, but that the fuel losses themselves can add up to quite a lot of money. They can also present a safety hazard.

Gleanings

New Yorkers are proud of their agriculture...so much so, in fact, that the state has been a pioneer in preserving farmland. At the turn of the century, farming was New York's primary industry, taking 23 million of the state's 30.6 million acres. Today, farming is still big business in New York, generating about $2.5 billion a year in cash receipts. On the 10 million acres of land remaining in agriculture, New York farmers produce a variety of field, orchard, and vineyard crops, and they maintain the nation's second largest dairy herd. While some more land will inevitably go out of farm production in coming years, the state has a variety of strategies for ensuring its agricultural future.

...**In 1980, for example, the New York state legislature** passed a bill that provided for agricultural districts, conservation easements, and an innovative program that would allow farmers to sell their land's development rights while retaining the land in agriculture. In 1971, New York made history when the Suffolk County government purchased development rights from four farmers. It was the first time in the country that any governmental body had made such a commitment. Agricultural and conservation easements are common throughout the state. Most are based on an exchange: The state gets jurisdiction over the land's future use for a specified period or, in some cases, in perpetuity. The landowner receives a tax advantage. Also, since 1971, more than 470 agricultural districts have been formed in 49 of New York's 57 counties. They range in size from 535 to 224,000 acres and ensure against the land's development for anything but farming.

Leaders

...**In 1983 Federal Farm Program Payments by State**[1]

in thousands of dollars (000)

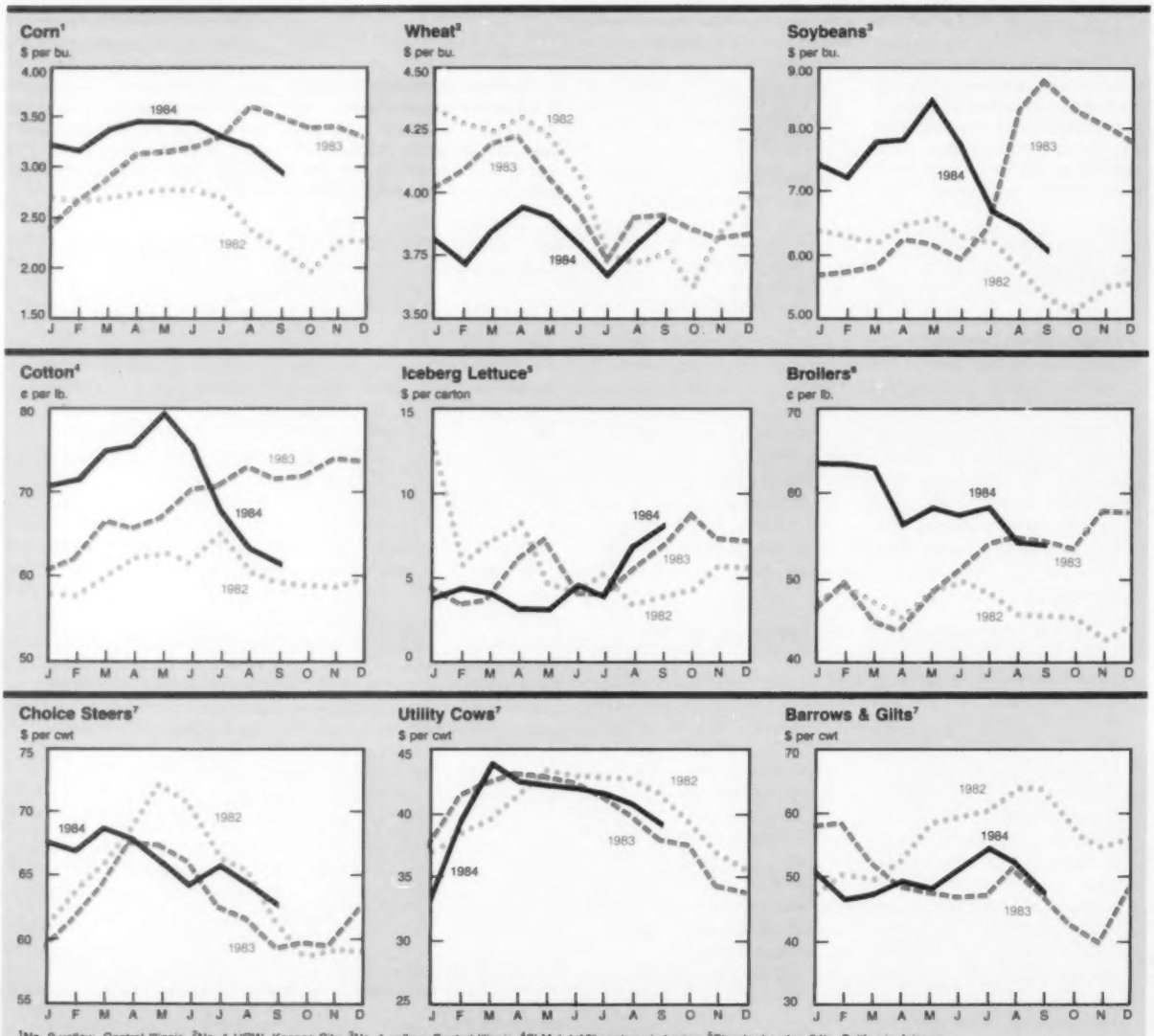
Texas	1,127,875	Oregon	66,786
Iowa	899,484	Alabama	64,280
Nebraska	762,251	Kentucky	60,095
Minnesota	610,934	New Mexico	57,076
Kansas	598,239	South Carolina	47,613
North Dakota	578,760	New York	37,922
Illinois	542,745	Pennsylvania	29,110
California	372,278	Virginia	28,875
Oklahoma	364,703	Wyoming	19,658
Arkansas	294,997	Utah	19,136
South Dakota	267,132	Florida	13,040
Indiana	264,619	Maryland	12,571
Montana	239,410	Hawaii	6,743
Missouri	236,918	New Jersey	4,287
Mississippi	230,089	Nevada	4,251
Ohio	170,749	West Virginia	3,895
Colorado	163,970	Delaware	3,885
Wisconsin	160,053	Maine	2,679
Washington	158,995	Vermont	1,526
Louisiana	157,649	Massachusetts	710
Michigan	140,936	New Hampshire	642
Idaho	136,397	Connecticut	541
Arizona	111,402	Alaska	240
Georgia	82,240	Rhode Island	107
Tennessee	68,235		
North Carolina	67,565	U.S. total	9,294,293

[1]Includes the value of commodities transferred to farmers in 1983 under the PIK program (more than $5.2 billion overall), as well as cash payments under commodity programs (deficiency, diversion, disaster, and storage payments), conservation programs, and miscellaneous programs.

FARMLINE TRENDS

Monthly Price Monitor

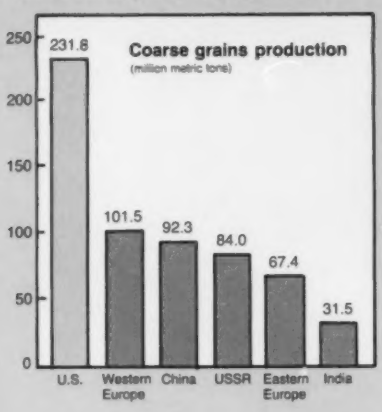
USDA's September index of farm prices dropped 2.8% from August but was 2.2% above its year-earlier level. Corn slipped below $3 per bushel for the first time in 18 months. Wheat rose to $3.90, but soybeans declined to its lowest price since June 1983—a plunge of $2.40 per bushel since May. Cotton hit its lowest price in 20 months. In the meat area, all prices were down. Choice steers dropped to the lowest price since November 1983. Utility cows were selling below $40 per cwt for the first time in 7 months, and barrows and gilts dipped below $48. All prices are monthly averages.

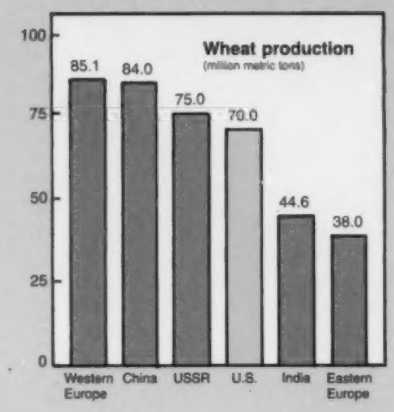


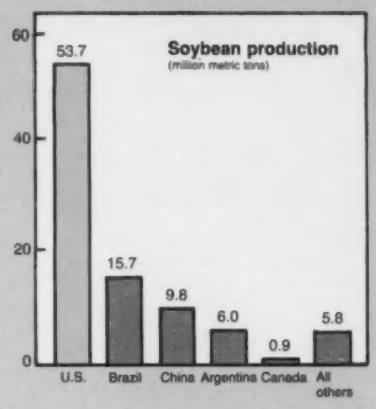
[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16" spot market price. [5]Standard carton 24's, California-Arizona. [6]Wholesale, New York. Monthly average prices since May 1983 may not be strictly comparable with prices for previous months. [7]Omaha.

U.S. Production in World Perspective

This season (1984/85 projected):







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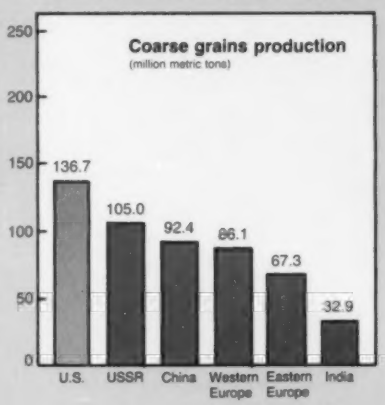
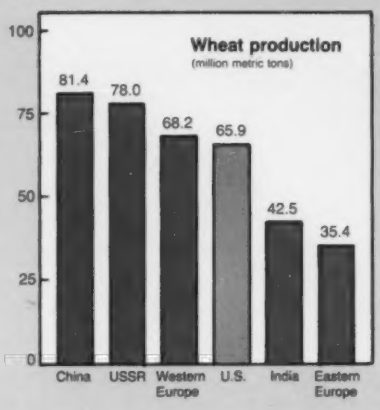
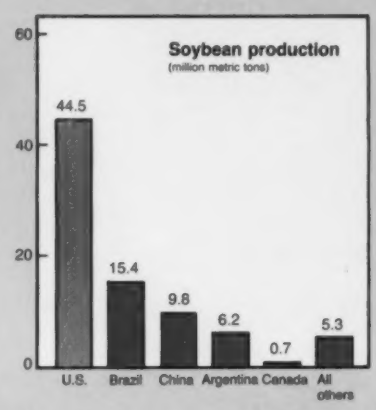
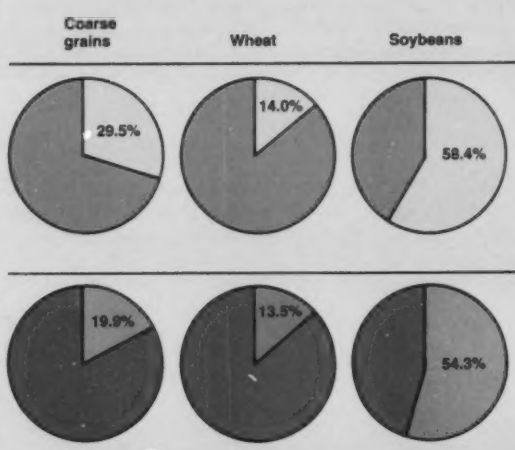


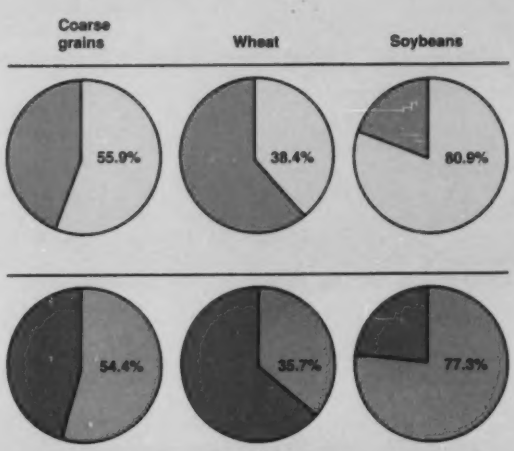




U.S. Share of World Production



U.S. Share of World Exports



All figures are based on October 1984 USDA estimates.

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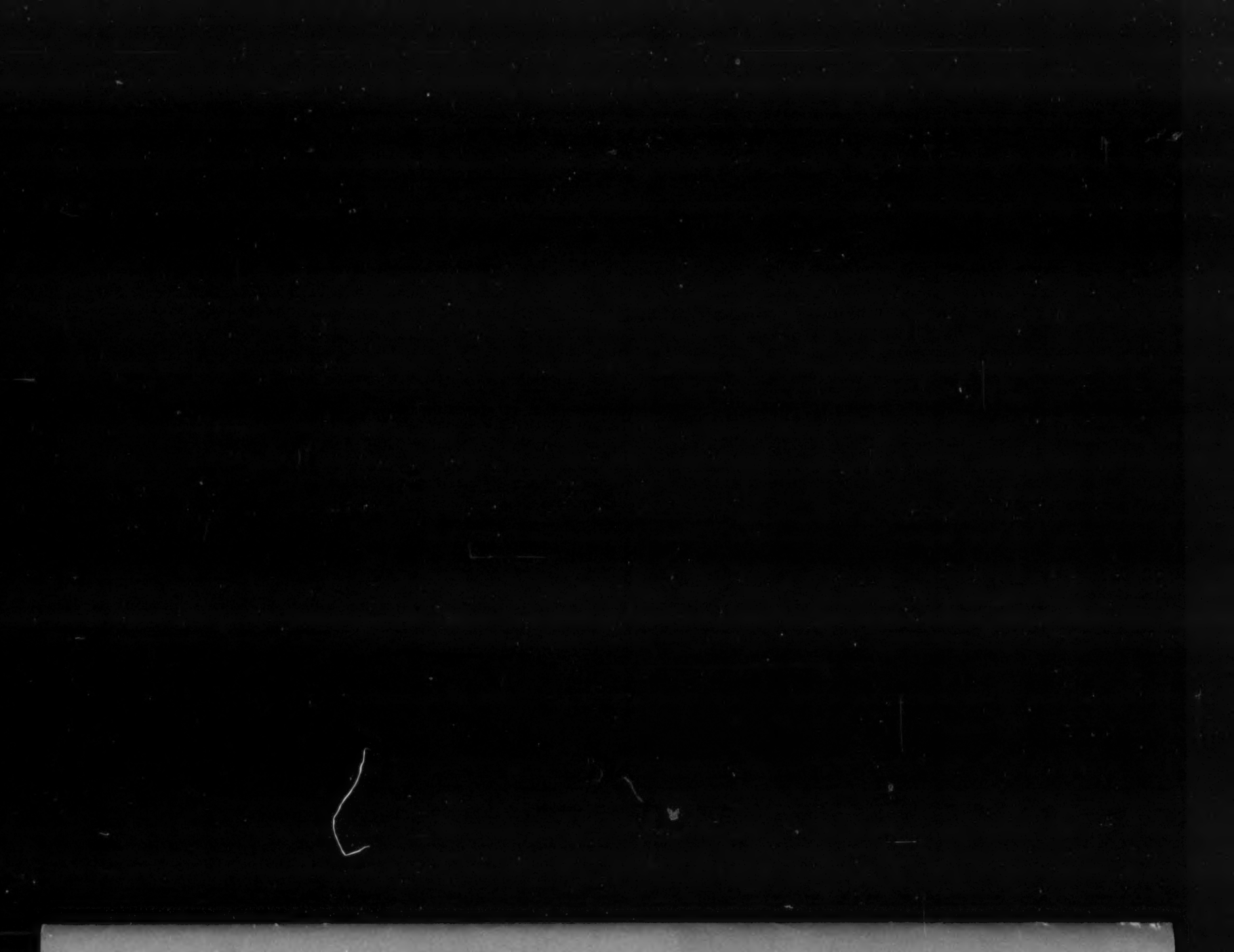
Third Class Bulk

Prospects for the 1985 farm bill will come under close scrutiny at **Outlook '85**, USDA's 61st annual agricultural outlook conference, which will be held in Washington, D.C., December 3-5, 1984. As is its tradition, the conference will lead off with the outlook for the economy, agriculture and trade, and international policy—major components of today's agricultural equation.

OUTLOOK '85

Shorter and tighter than in recent years, the conference will provide policymakers with a complete overview of the agricultural situation in 3 days. Secretary of Agriculture John Block is scheduled to open the proceedings with an address at 10 a.m. Monday, December 3. Two special panels on the 1985 farm bill will follow, one focusing on the environment for the new legislation and the second including viewpoints from members of Congress, the Administration, and the farm and private sectors. Succeeding sessions will cover the major farm commodities, while sessions on family economics and nutrition are scheduled over the 3 days.

This year for the first time, listeners outside the Washington area will be able to call in questions to certain follow-up sessions for major commodities. Callers will use a regular long-distance business line at regular long-distance rates.

As last year, a 900-line service will allow listeners to hear all sessions. The service costs 50 cents for the first minute and 35 cents for each additional minute. Thus, you can hear an hour-long session for less than $22, plus tax.

For a copy of the preliminary **Outlook '85** program, which contains time and location for each session, please write: Outlook '85, USDA/WAOB, Room 5143-S., Washington, D.C. 20250.